MIKO INTERNATIONAL HOLDINGS LIMITED
米格國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 1247)

ANNOUNCEMENT OF UNAUDITED ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2019

The board (the "**Board**") of directors (the "**Directors**") of Miko International Holdings Limited (the "**Company**") announced the unaudited consolidated results of the Company and its subsidiaries (collectively the "**Group**") for the financial year ended 31 December 2019 (the "**FY2019**") together with the comparative figures for the year ended 31 December 2018, which have been prepared in accordance with the Hong Kong Financial Reporting Standards ("**HKFRSs**") and reviewed by the audit committee of the Company as below. For the reasons explained in the paragraph headed "Scope of Work of the Independent Auditors" in this announcement, the auditing process for the annual results of the Group for the year ended 31 December 2019 has not been completed.

UNAUDITED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019 (Expressed in Renminbi)

	Note	**2019** ***RMB'000*** **(Unaudited)**	2018 *RMB'000* (Audited)
Turnover	3	**166,031**	214,435
Cost of sales		**(136,558)**	(175,772)
Gross profit		**29,473**	38,663
Other revenue	4	**1,089**	2,480
Other net loss	4	**–**	(48)
Share of results from an associate		**239**	880
Written down on inventories		**(29,458)**	(25,364)
Bad debts written off on trade receivables		**(31,018)**	(12,359)
Reversal of/(provision on) impairment loss recognised on trade receivables, net		**9,296**	(8,093)
Impairment loss recognised on goodwill	9	**(27,712)**	(16,671)
Impairment loss recognised on intangible assets	8	**(7,960)**	–
Loss on the remeasurement of asset classified as held for sale		**(4,725)**	–
Selling and distribution expenses		**(138,028)**	(128,346)
Administrative and other operating expenses		**(33,996)**	(45,083)
Loss on derecognition of convertible bonds		**(1,217)**	–
Loss from operations		**(234,017)**	(193,941)
Finance costs	5(a)	**(7,517)**	(7,557)
Loss before taxation	5	**(241,534)**	(201,498)
Income tax expenses	6(a)	**–**	(188)
Loss for the year attributable to shareholders of the Company		**(241,534)**	(201,686)
Other comprehensive income/(loss) for the year			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of overseas subsidiaries		**2,014**	(392)
Total comprehensive loss for the year attributable to shareholders of the Company		**(239,520)**	(202,078)
Loss per share ***(RMB cents)***			
– Basic and diluted	7	**(24)**	(21)

UNAUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019 (Expressed in Renminbi)

	Note	**2019** ***RMB'000*** **(Unaudited)**	2018 *RMB'000* (Audited)
Non-current assets			
Property, plant and equipment		**61,963**	96,394
Intangible assets		**17,666**	43,952
Lease prepayments		**–**	2,589
Right-of-use assets		**2,501**	–
Deposits for purchase of property, plant and equipment		**1,005**	282
Goodwill		**–**	27,712
Deferred tax assets		**1,904**	1,904
Investment in an associate		**46,676**	46,437
		131,715	219,270
Current assets			
Inventories		**49,897**	69,414
Trade receivables	8	**67,781**	139,806
Prepayments, deposits and other receivables		**39,117**	118,228
Fixed deposits at banks with original maturity over three months		**–**	40,000
Cash and cash equivalents		**32,102**	3,555
		188,897	371,003
Asset classified as held for sale		**26,300**	–
		215,197	371,003

	Note	2019 RMB'000 (Unaudited)	2018 RMB'000 (Audited)
Current liabilities			
Bank loans		**45,000**	62,000
Trade and other payables	9	**38,781**	14,017
Convertible bonds		**–**	32,147
		83,781	108,164
Net current assets		**131,416**	262,839
Total assets less current liabilities		**263,131**	482,109
Non-current liabilities			
Deferred tax liabilities		**1,300**	1,300
Convertible bonds		**13,503**	–
		14,803	1,300
Net assets		**248,328**	480,809
Equity			
Share capital		**7,833**	7,833
Reserves		**240,495**	472,976
Total equity		**248,328**	480,809

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

1 GENERAL INFORMATION

The Company is a limited liability company incorporated in the Cayman Islands. The registered office address of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The Company's principal place of business in Hong Kong is located at Room 1601, Ho King Commercial Centre, 2–16 Fa Yuen Street, Mong Kok, Kowloon, Hong Kong.

During the year, the Company and its subsidiaries (collectively the "**Group**") were principally engaged in the business of design, manufacture and sales of children apparel products. There were no significant changes in the nature of the Group's principal activities during the year.

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

The unaudited consolidated financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("**IFRSs**"), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards ("**IASs**") and Interpretations issued by International Accounting Standards Board ("**IASB**"). These consolidated financial statements also comply with the applicable disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The unaudited consolidated annual financial information has been prepared on the historical basis. The Group has adopted the same accounting policies and methods of computation in the preparation of the financial statements for the current reporting year compared with those of the audited financial statements for the year ended 31 December 2018 (the "**FY2018**").

(b) Changes in accounting policies

The IASB has issued a number of new IFRSs and amendments to IFRSs that are first effective for the current accounting period of the Group.

The accounting policies adopted in the unaudited consolidated financial statements for the year ended 31 December 2019 are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2018 except as described below.

The Group has applied the following new IFRSs and amendments to IFRSs issued by the International Accounting Standards Board (the "**IASB**") for the first time in the current year:

IFRSs (Amendments)	Annual Improvements to IFRSs 2015-2017 Cycle
IFRS 9 (Amendments)	Clarification to IFRS 9 Financial Instrument
IFRS16	Leases
IAS 19 (Amendments)	Plan Amendment, Curtailment or Settlement
IAS 28 (Amendments)	Investments in associates and joint ventures
HK (IFRIC) – Int 23	Uncertainty over income tax Transactions

Except as described below, the application of the new IFRSs and amendments to IFRSs in the current year has had no material impact on the Group's financial positions and performance for the current and prior periods and/or on the disclosures set out in the unaudited consolidated financial statements.

Impacts and changes in accounting policies of application on IFRS 16 "Leases"

The Group has applied IFRS 16 for the first time in the current year. IFRS 16 superseded IAS 17 "Leases" ("**IAS 17**"), and the related interpretations.

Key changes in accounting policies resulting from application of IFRS 16

IFRS 16 Leases

The Group has applied IFRS 16 for the first time in the current year. IFRS 16 superseded IAS 17 Leases ("**IAS 17**"), and the related interpretations.

Definition of Leases

The Group has elected the practical expedient to apply IFRS 16 to contracts that were previously identified as leases applying IRS 16 and HK (IFRIC-4) Determining whether an Arrangement contains a Lease and not apply this standard to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in IFRS 16 in assessing whether a contract contains a lease.

As a Lessee

The Group has applied IFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019.

When applying the modified retrospective approach under IFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under IAS 17, on lease- by-lease basis, to the extent relevant to the respective lease contracts:

(i) elected not to recognise right-of-use assets and lease liabilities for leases with lease term ending within 12 months of the date of initial application;

(ii) excluded initial direct costs from measuring the right-of-use assets at the date of initial application;

(iii) applied a single discount rate to a portfolio of leases with similar remaining terms for similar class of underlying assets in similar economic environment; and

(iv) relied on the assessment of whether leases are onerous by applying IAS 37 Provisions, Contingent Liabilities and Contingent Assets as an alternative of impairment review.

The carrying amount of right-of-use assets for own use as at 1 January 2019 comprises the following:

	1 January 2019
	RMB'000
Right-of-use assets relating to operating leases recognised upon application of IFRS 16	**–**
Add: Reclassification from lease prepayments	**2,589**
	2,589
By class:	
Leasehold lands	**2,589**

The following table summarises the impacts of the adoption of IFRS 16 on the Group's unaudited consolidated statement of financial position at 1 January 2019. Line items that were not affected by the changes have not been included.

	Carrying amount previously reported at 31 December 2018	Reclassification	Adjustments	Carrying amount under IFRS 16 at 1 January 2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Line items in the consolidated statement of financial position impacted by the adoption of IFRS 16:				
Right-of-use assets	–	2,589	–	2,589
Lease prepayments	2,589	(2,589)	–	–

3 TURNOVER AND SEGMENT INFORMATION

The principal activities of the Group are design, manufacture and sales of children's apparel products. Turnover represents the sales value of goods sold less returns, discounts and value added taxes.

Segment revenue and results:

The following is an analysis of the Group's revenue and results by reportable segments.

	Wholesalers		**Retail outlets**		**Total**	
	2019	2018	**2019**	2018	**2019**	2018
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
	(Unaudited)	(Audited)	**(Unaudited)**	(Audited)	**(Unaudited)**	(Audited)
Revenue from external customers	**107,460**	142,627	**58,571**	71,808	**166,031**	214,435
Inter-segment revenue	**53,304**	65,954	**–**	–	**53,304**	65,954
Reportable segment revenue	**160,764**	208,581	**58,571**	71,808	**219,335**	280,389
Segment results	**(113,289)**	(102,757)	**(18,353)**	(26,926)	**(131,642)**	(129,683)
Written down on inventories	**(29,458)**	(25,364)	**–**	–	**(29,458)**	(25,364)
Bad debts written off on trade receivables	**(31,018)**	(12,359)	**–**	–	**(31,018)**	(12,359)
Reversal of/(Provision for) impairment loss recognised on trade receivables	**10,171**	(8,084)	**(875)**	(9)	**9,296**	(8,093)
Impairment loss recognised on goodwill			**(27,712)**		**(27,712)**	(16,671)
Impairment loss on intangible assets			**(7,960)**		**(7,960)**	–
Loss on the remeasurement of asset classified as held for sale	**(4,725)**	–	**–**	–	**(4,725)**	–
Other revenue					**1,089**	2,480
Other net loss					**–**	(48)
Share of results from an associate					**239**	880
Central administration costs					**(10,909)**	(5,083)
Loss on derecognition of convertible bonds					**(1,217)**	–
Finance costs					**(7,517)**	(7,557)
Loss before taxation					**(241,534)**	(201,498)

The accounting policies of the operating segments are the same as the Group's accounting policies to the unaudited consolidated financial statements. Segment results represent the loss recorded by each segment without allocation of other revenue, other net loss, share of results from an associate, loss on derecognition of convertible bonds, finance costs and central administrative costs including directors' remuneration. This is the measure reported to the chief operating decision maker for the purposes of resources allocation and assessment of segment performance.

Segment assets and liabilities:

	Wholesalers		Retail outlets		Total	
	2019	2018	**2019**	2018	**2019**	2018
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
	(Unaudited)	(Audited)	**(Unaudited)**	(Audited)	**(Unaudited)**	(Audited)
Segment assets	**234,201**	452,187	**39,544**	90,517	**273,745**	542,704
Unallocated assets					**46,867**	47,569
Asset classified as held for sale					**26,300**	–
Total assets					**346,912**	590,273
Segment liabilities	**78,507**	73,891	**684**	1,037	**79,191**	74,928
Unallocated liabilities					**19,393**	34,536
Total liabilities					**98,584**	109,464

For the purpose of monitoring segment performance and allocating resources between segments:

– all assets are allocated to reportable segments other than assets held by the Group which the roles are investment holding company. Goodwill and intangible assets are allocated to reportable segments; and

– all liabilities are allocated to reportable segments other than liabilities held by the Group which the roles are investment holding company.

Other segment information:

	Wholesalers		Retail outlets		Total	
	2019	2018	**2019**	2018	**2019**	2018
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
	(Unaudited)	(Audited)	**(Unaudited)**	(Audited)	**(Unaudited)**	(Audited)
Capital expenditure*	**6,944**	10,834	**–**	470	**6,944**	11,304
Depreciation of property, plant and equipment	**8,857**	8,150	**980**	1,092	**9,837**	9,242
Depreciation of right-of-use assets	**88**	–	**–**	–	**88**	–
Amortisation-lease prepayment	**–**	88	**–**	–	**–**	88
Loss on disposal of property, plant and equipment	**85**	385	**428**	595	**513**	980
Written down on inventories	**29,458**	25,364	**–**	–	**29,458**	25,364
Bad debts written off on trade receivables	**31,018**	12,359	**–**	–	**31,018**	12,359
(Reversal of)/provision on impairment loss recognised on trade receivables	**(10,171)**	8,084	**875**	9	**(9,296)**	8,093
Loss on the remeasurement of asset classified as held for sale	**4,725**	–	**–**	–	**4,725**	–

* Capital expenditure consists of additions to property, plant and equipment.

Geographical information:

The Group's revenue by geographical location is determined by the destination to which the goods are delivered.

	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Mainland China	**166,031**	214,435

Information about major customers:

No information about major customers is presented as no single customer contributed over 10% of the total revenue of the Group during the year ended 31 December 2019 and 2018.

4 OTHER REVENUE AND OTHER NET LOSS

	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Other revenue		
Interest income	**143**	1,918
Rental income	**683**	562
Samples income	**263**	–
	1,089	2,480
Other net loss		
Net foreign exchange loss	**–**	(48)

5 LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging/(crediting):

		2019	2018
		RMB'000	*RMB'000*
		(Unaudited)	(Audited)
(a)	**Finance costs:**		
	Interest on bank loans	**3,292**	3,235
	Imputed interest on convertible bonds	**4,225**	4,322
		7,517	7,557
(b)	**Staff costs:**		
	Contributions to defined contribution retirement plans	**2,929**	2,891
	Salaries, wages and other benefits	**31,732**	32,723
	Equity-settled share-based payment expenses	**2,898**	515
		37,559	36,129
(c)	**Other items:**		
	Amortisation		
	– lease prepayments	**–**	88
	– intangible assets	**18,326**	18,365
	Depreciation of property, plant and equipment	**9,837**	9,242
	Depreciation of right-of-use assets	**88**	–
	Auditors' remuneration		
	– Audit services	**1,200**	1,308
	– Non-audit services	**–**	–
	Loss on disposal of property, plant and equipment	**513**	980
	Written down on inventories	**29,458**	25,364
	Bad debts written off on trade receivables	**31,018**	12,359
	(Reversal of)/provision on impairment loss recognised on trade receivables	**(9,296)**	8,093
	Loss on the remeasurement of asset classified as held for sale	**4,725**	–
	Operating lease charges in respect of properties	**–**	145
	Research and development expenses	**11,774**	11,095
	Short-term lease payment	**626**	–
	Cost of inventories sold#	**136,558**	175,772
	Impairment loss recognised on goodwill	**27,712**	16,671
	Impairment loss recognised intangible assets	**7,960**	–
	Loss on derecognition of convertible bonds	**1,217**	–

\# Cost of inventories for the year ended 31 December 2019 includes RMB10,565,000 (2018: RMB9,878,000) relating to staff costs and depreciation, which amount is also included in the respective total amounts disclosed separately in notes 5(b) and (c) above for each of these types of expenses.

6 TAXATION

(a) Income tax expenses in the unaudited consolidated statement of profit or loss and other comprehensive income represents:

	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Current tax		
– PRC corporate income tax	**–**	–
Deferred tax		
– Origination of temporary differences	**–**	188
	–	188

7 LOSS PER SHARE

(a) Basic loss per share

The calculation of basic loss per share is based on the loss for the year of RMB241,534,000 (2018: loss of RMB201,686,000) and the weighted average of 984,000,000 ordinary shares (2018: 962,521,000 ordinary shares).

(b) Diluted loss per share

The effect of the Company's share options and convertible bonds was anti-dilutive for the year ended 31 December 2019 and 2018, and therefore, diluted loss per share is the same as the basic loss per share.

8 TRADE RECEIVABLES

In general, the credit period granted to customers is 30 to 120 days. (2018: 30 to 120 days)

As of the end of the reporting year, the ageing analysis of trade receivables based on invoice date and net of allowance for doubtful debts, is as below:

	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Within 90 days	**44,252**	55,649
90–120 days	**7,755**	20,330
After 120 days but within 180 days	**6,977**	23,615
After 180 days but within 1 year	**315**	17,321
Over 1 year	**8,482**	22,891
	67,781	139,806

9 TRADE AND OTHER PAYABLES

Included in the trade and other payables, as of the end of the reporting year the trade payables were RMB3,906,000 (2018: RMB1,215,000).

In general, the credit period granted by suppliers is 30 days.

Set out below is an ageing analysis of the trade payables at the end of the reporting period based on relevant invoice dates:

	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Within 3 months	**3,409**	718
After 3 months but within 6 months	**–**	–
After 6 months but within 1 year	**–**	–
After 1 year	**497**	497
	3,906	1,215

10 DIVIDEND

No dividend was paid or proposed during the year ended 31 December 2019 and 2018, nor has any dividend been proposed since the end of the reporting period. The rates of dividend and the number of shares ranking for dividend are not presented, as such information is not considered meaningful for the purpose of these consolidated financial statements.

11. EVENTS AFTER THE REPORTING PERIOD

(i) On 12 December 2019, Red Kids (China) Co., Ltd ("**Red Kids China**"), entered into the Sale and Purchase Agreement with 上海晏河建設勘測設計有限公司("**Shanghai Yanhe**"), pursuant to which Red Kids China has agreed conditionally to sell, and Shanghai Yanhe has agreed conditionally to purchase Building No. 3 (also known as Building No. 7), Shanghai Shangzhifang Fashion Culture Creative Park, No. 6066 Songze Avenue, Qingpu District, Shanghai, PRC, for an aggregate consideration of RMB26,300,000. The disposal transaction has been approved by the shareholders at the extraordinary general meeting on 12 February 2020 and the transfer was already completed. For further details, please refer to the announcement of the Company dated 12 December 2019, 7 January 2020, 24 January 2020 and 12 February 2020.

(ii) Since January 2020, the outbreak on Novel Coronavirus ("**COVID-19**") has impacted the global business environment. Pending the development and spread of COVID-19 subsequent to the date of the financial statements, further changes in economic conditions for the Group arising thereof may have impact on the financial results of the Group, the extent of which could not be estimated as at the date of these financial statements. The Group will continue to monitor the development of COVID-19 and react actively to its impact on the financial position and operating results of the Group.

BUSINESS REVIEW AND OUTLOOK

For the full year of 2019, revenue and net loss before taxation of our Group amounted to approximately RMB166.0 million and RMB241.5 million respectively, as compared to revenue and net loss before taxation of approximately RMB214.4 million and RMB201.5 million respectively for the full year of 2018.

The Sino-United States trade war that broke out in 2018 continued and re-escalated in the year of 2019 and the devaluation of the Renminbi has created many uncertainties on Mainland China's overall economic growth. The consumer sentiment and retail market were negatively affected continuously.

Facing the challenges from the complicated business environment, the continuous slowdown in the demand in domestic children apparel industry and the change in the consumption pattern of the consumers posed a negative impact to this retail sector during the year. The tough operating environment from fierce competition and increase in on-line shopping platforms caused brand consolidation and continuous transformation in the industry. The Group continued to review the performance of the physical retail stores and closed down stores with low efficiency during the year.

The prospect of the retail sector in Mainland China is clouded by the macro-economic uncertainty brought by the Sino-United States trade war and micro-economic pressures of Mainland China market. In addition, due to the unexpected COVID-19 outbreak and its adverse impact since January 2020 in Mainland China, the Group decided to close certain self-operated stores recently in view of the traffic restriction from the local government and slow down of retail market. The Group expects that such economy disruption and traffic restriction will materially and adversely affect the operating results in 2020 in Mainland China. The management is not able to quantify and estimate the potential financial implication at the time of this annual results announcement but would maintain the healthy liquidity of the Group to all extents. The management would always observe and review the current situation from time to time in order to minmize the loss suffered from such tough business atmosphere. Currently, the Group would shift the focus more to the on-line shopping platforms through distributors so as to achieve more sustainable operation in the current tough economy and business environment.

The Group continues to examine the development strategy carefully to minimize the adverse impact from such environment. In the medium to long-term, the Group remains cautiously optimistic about its business and believes that it will bring satisfactory and sustainable returns to the shareholders. The Group continuously remains open to the opportunities for investment that can lead to sustainable growth going forward.

MANAGEMENT DISCUSSION AND ANALYSIS

Revenue

Our Group's products are primarily marketed through wholesaling to distributors and self-operated stores who operate "redkids" branded retail stores in various provinces and municipalities in Mainland China. As at 31 December 2019, there were 28 "redkids" branded self-operated stores (2018: 74) and distributors located in the second to fourth tier cities in Mainland China.

The retail industry experienced a declining retail climate, uncertainty of consumer sentiment, and fierce competition in China for the year of 2019. Our Group's revenue was unavoidably affected by this challenging business environment despite a progressive relaxation of the one-child policy and increasing trend of GDP in Mainland China. Coupled with a slow-down of orders received from our distributors and self-operated stores, our Group's revenue recorded a decrease of about 22.6%, from approximately RMB214.4 million for FY2018 to approximately RMB166.0 million for FY2019.

Sales to distributors continued to account for the majority of our Group's revenue during FY2019. Sales to distributors were approximately RMB107.5 million for FY2019, representing approximately 64.7% of our Group's revenue, as compared to that of approximately RMB141.8 million or 66.1% for FY2018.

Regarding sales to our designated on-line distributor, who resells our products through different online sales platforms in Mainland China, no sales was recognized for FY2019 owing to the undergoing changes by the distributor as compared to approximately RMB0.9 million for FY2018.

Sales from self-operated stores were approximately RMB58.6 million for FY2019, representing 35.3% of our Group's revenue, as compared to that of approximately RMB71.8 million or 33.5% for FY2018.

Sales from the apparel products segment continued to account for the majority of our Group's revenue during FY2019. Sales were approximately RMB163.4 million for FY2019, representing 98.4% of our Group's revenue, as compared to that of approximately RMB179.3 million or 83.6% for FY2018.

For the footwear and accessories segment, sales decreased from approximately RMB35.1 million for FY2018 to approximately RMB2.6 million for FY2019.

The table below sets forth sales volume and average wholesale price for the years indicated:

	FY2019	FY2018	**% change**
	(Unaudited)	(Audited)	
Sales volume *(million units)*	**2.8**	5.5	(49.1)
Average wholesale price *(RMB)*	**59**	39	51.3

The table below sets forth our revenue by product/service category for the year indicated:

	FY2019		FY2018		**% change**
	RMB'000	*%*	*RMB'000*	*%*	
	(Unaudited)		(Audited)		
Apparel	**163,442**	**98.4**	179,348	83.6	(27.6)
Footwear and Accessories	**2,589**	**1.6**	35,087	16.4	(92.6)
	166,031	**100.0**	214,435	100.0	(22.6)

We primarily market our products through the extensive retail network in Mainland China.

The table below sets forth our revenue by sales channels for the years indicated:

	FY2019		FY2018		% change
	RMB'000	%	*RMB'000*	%	
	(Unaudited)		(Audited)		
Sales to distributors	**107,460**	**64.7**	141,818	66.1	(47.9)
Sales to on-line distributor	**–**	**–**	809	0.4	(100.0)
Sales from self-operated stores	**58,571**	**35.3**	71,808	33.5	(18.4)
	166,031	**100.0**	214,435	100.0	(22.6)

Cost of Sales

Our cost of sales decreased by approximately RMB39.2 million or approximately 22.3%, from approximately RMB175.8 million for FY2018 to approximately RMB136.6 million for FY2019. The decrease was generally in line with the decrease in turnover. During FY2019, we continued to outsource the production of products which requires special technologies and know-how to OEM factories. As a percentage of cost of sales, purchase from OEM factories accounted for approximately 60.0% for FY2019 as compared to that of approximately 69.7% for FY2018.

Gross Profit and Gross Profit Margin

As a result of the foregoing, our gross profit decreased by approximately RMB9.2 million or approximately 23.8%, from approximately RMB38.7 million for FY2018 to approximately RMB29.5 million for FY2019. Gross profit margin decreased by 0.2%, from 18.0% for FY2018 to 17.8% for FY2019.

Other Revenue and Other Net Loss

Other revenue primarily consisted of interest income from bank deposits of approximately RMB0.1 million (FY2018: approximately RMB1.9 million) rental and samples income of approximately RMB0.9 million (FY2018: approximately RMB0.6 million).

No other net loss in the year was recorded (FY2018: net foreign exchange loss of approximately RMB0.05 million).

Share of Results from an Associate

In FY2019, share of profit from an associate of the Group was approximately RMB0.2 million (FY2018: approximately RMB0.9 million).

Bad Debt Written off and Reversal of/(Provision on) Impairment Loss Recognised on Trade Receivables

Bad debts written off in respect of trade receivables of approximately RMB31.0 million (FY2018: RMB12.4 million) was recorded.

Reversal of impairment losses in respect of trade receivables of approximately RMB9.3 million (FY2018: provision on impairment in respect of trade receivable of approximately RMB8.1 million) are recorded due to the management of the Company taking into consideration of the current credit worthiness, the past collection history, the aged status and the prevailing market conditions. We continue to conduct comprehensive review of our distributors' repayment histories, resources and financial capabilities to ensure that they are able to repay the debt within the credit period.

Impairment Loss Recognised on Goodwill and Intangible Assets

Due to the recession of consumable market in Mainland China, the retail outlets business had suffered an operating loss during the year. The Directors believe that the recoverable amount of the CGU as at 31 December 2019 is lower than the carrying amount of the CGU. As such, impairment loss on goodwill of approximately RMB27.7 million (2018: RMB16.7 million) and impairment loss on intangible assets of approximately RMB8.0 million (2018: nil) were recognised.

Selling and Distribution Expenses

Selling and distribution expenses primarily consisted of marketing rebates, salaries and benefits for sales and marketing personnel, and advertising and exhibition expenses for outdoor advertisements. Selling and distribution expenses recorded an increase of approximately 7.6%, from approximately RMB128.3 million for FY2018 to approximately RMB138.0 million for FY2019. The increase resulted from more advertisement and marketing to promote the brands in the market.

As a percentage of turnover, selling and distribution expenses were 59.9% and 83.1% for FY2018 and FY2019 respectively.

Administrative and Other Operating Expenses

Administrative and other operating expenses primarily consisted of R&D expenses, salaries and benefits for administrative personnel, professional expenses in relation to legal and financial advisory services and taxes and levies.

Administrative and other operating expenses were approximately RMB34.0 million for FY2019, representing a decrease of approximately RMB11.1 million or a decrease of approximately 24.6% as compared to approximately RMB45.1 million for FY2018.

As a percentage of turnover, administrative and other operating expenses were 21.0% and 20.5% for FY2018 and FY2019 respectively.

Finance Costs

Finance costs increased by approximately RMB0.1 million, from approximately RMB7.6 million for FY2018 to approximately RMB7.5 million for FY2019.

Income Tax Expenses

No income tax expenses was recognised for FY2019 as compared to approximately RMB0.2 million for FY2018. The effective tax rate was 0.09% for FY2018. Currently, our principal subsidiaries in Mainland China are subject to an enterprise income tax rate of 25%.

Loss for the Year before Taxation

As a result of the foregoing, loss before taxation for FY2019 of approximately RMB241.5 million was recorded as compared to approximately RMB201.5 million for FY2018.

Working Capital Management

We possess sufficient cash to meet liquidity requirements and for strategic alliances and acquisitions, if any. As of 31 December 2019, our cash and cash equivalents, and bank deposits totaled approximately RMB32.1 million (31 December 2018: approximately RMB43.6 million), representing more than 16.0% (31 December 2018: 11.7%) of the total amount of our current assets.

Current ratio and quick ratio were 2.6 times and 2.0 times, respectively, as at 31 December 2019, as compared to 3.4 times and 2.8 times, respectively, as at 31 December 2018.

Inventories

Our inventories decreased by approximately RMB19.5 million, from approximately RMB69.4 million as of 31 December 2018 to approximately RMB49.9 million as at 31 December 2019. Inventories mainly comprised raw materials of approximately RMB1.5 million (31 December 2018: approximately RMB1.1 million), work in progress of approximately RMB2.4 million (31 December 2018: approximately RMB1.1 million) and finished goods of approximately RMB46.0 million (31 December 2018: approximately RMB67.2 million). The inventory turnover was 160 days for FY2019 (FY2018: 182 days).

A write down on inventories of RMB29.5 million (2018: RMB25.4 million) is recorded due to allowance made for obsolete and slow-moving inventory items as the net realisable value for such inventories based primarily on the estimated subsequent selling prices and salability of inventories.

Trade Receivables

Trade receivables decreased by approximately RMB72.0 million, from approximately RMB139.8 million as of 31 December 2018 to approximately RMB67.8 million as of 31 December 2019.

Trade receivables turnover was 228 days for FY2019, (FY2018: 303 days).

Reversal of impairment losses in respect of trade receivables of RMB9.3 million (2018: provision on impairment losses RMB8.1 million) are recorded due to the management of the Company taking into consideration of the current credit worthiness, the past collection history, the aged status and the prevailing market conditions. We continue to conduct comprehensive review of our distributors' repayment histories, resources and financial capabilities to ensure that they are able to repay the debt within the credit period.

Trade Payables

Trade payables increased from approximately RMB1.2 million as of 31 December 2018 to approximately RMB3.9 million as of 31 December 2019. Trade payables turnover was 7.5 days for FY2019 (FY2018: 8.2 days).

LIQUIDITY AND FINANCIAL RESOURCES

The following table sets forth our cash flows for FY2019 and FY2018:

	FY2019	FY2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Net cash used in operating activities	**38,578**	(90,149)
Net cash generated from investing activities	**33,199**	63,804
Net cash generated from financing activities	**(45,244)**	28,545
Net increase in cash and cash equivalents	**26,533**	2,200
Cash and cash equivalents at 1 January	**3,555**	1,972
Effect of foreign exchange rate changes	**2,014**	(617)
Cash and cash equivalents at 31 December	**32,102**	3,555

We were in net cash position as of 31 December 2019, and our gearing ratio was 23.6% as of 31 December 2019 (31 December 2018: 19.4%).

Notes to financial ratios

(1) *Inventory turnover days equal to the average of the opening and closing balances of inventories of the relevant period divided by cost of sales of the relevant year and multiplied by 365 days*

(2) *Trade receivables turnover days equal to the average of the opening and closing balances of trade receivables of the relevant period divided by turnover of the relevant year and multiplied by 365 days*

(3) *Trade payables turnover days equal to the average of the opening and closing balances of trade payables of the relevant year divided by cost of sales of the relevant year and multiplied by 365 days*

(4) *Current ratio equals to current assets divided by current liabilities as of the end of the year*

(5) *Quick ratio equals to current assets less inventories divided by current liabilities as of the end of the year*

(6) *Gearing ratio equals to total of bank and other borrowings divided by total equity as of the end of the year*

FINANCIAL RISK MANAGEMENT

We have a treasury policy that aims to better control our treasury operations and lower borrowing cost. Our treasury policy requires our Group to maintain an adequate level of cash and cash equivalents, and sufficient available banking facilities to finance our daily operations and to address short-term funding needs. We review and evaluate our treasury policy from time to time to ensure its adequacy and effectiveness.

Except for operations of our Company and other investment holding companies outside Mainland China, our Group's businesses are principally conducted in RMB and most of the Group's monetary assets and liabilities are denominated in RMB. Accordingly, the management considers our Group's exposure to currency risk insignificant.

Our interest rate risk arises primarily from bank borrowings. As our Group's operations are mainly conducted in Mainland China and the majority of our Group's assets and liabilities, and sales and purchases are transacted in RMB, the Directors are of the view that our Group are not subject to significant foreign exchange rate risks.

CAPITAL STRUCTURE AND FUND RAISING ACTIVITIES

Amendments to the Terms and Conditions of the CB Subscription Agreement and the Convertible Bonds

On 12 June 2019, the Company, Quanzhou Tuoyu Trade Co., Ltd. (the "**Purchaser**") and Bright Oasis Investment Holdings Limited (the "**Subscriber**") have entered into a deed of amendment ("**Deed of Amendment**") to amend certain terms and conditions of the subscription agreement dated 2 June 2017 ("**CB Subscription Agreement**") and the convertible bonds in the aggregate principal amount of RMB34,393,044 issued by the Company to the Subscriber on 23 June 2017 (the "**Convertible Bonds**").

According to the Deed of Amendment, the Company, the Purchaser and the Subscriber have agreed that (i) the Company shall repay to the Subscriber a partial principal amount of Convertible Bonds of RMB18,629,566, (ii) the Convertible Bonds in the aggregate principal amount of not more than RMB34,393,044 representing 164,800,000 conversion Shares at the conversion price of HK$0.24 per Share shall be adjusted to an aggregate outstanding principal amount of RMB15,763,478 representing 164,800,000 conversion Shares at the conversion price of HK$0.11 per Share; (iii) the maturity date of the Convertible Bonds shall be extended from 23 June 2019 to 23 June 2021; and (iv) the interest rate of the Convertible Bonds shall be adjusted from 4.0% per annum to 8.0% per annum on the principal amount of the Convertible Bonds outstanding.

For further details, please refer to the announcement of the Company dated 12 June 2019.

CAPITAL COMMITMENTS

As of 31 December 2019, capital expenditure contracted but not provided for was approximately RMB7.5 million (31 December 2018: approximately RMB7.5 million).

CONTINGENT LIABILITIES

Our Group did not have any significant contingent liabilities as of 31 December 2019 and 2018.

PLEDGE OF ASSETS

As of 31 December 2019, pledged bank deposits, certain properties and lease prepayments totalled approximately RMB57.4 million (31 December 2018: approximately RMB65.0 million) were pledged for certain bank loans.

SIGNIFICANT INVESTMENTS AND MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES

On 12 December 2019, Red Kids China, entered into the Sale and Purchase Agreement with Shanghai Yanhe, pursuant to which Red Kids China has agreed conditionally to sell, and Shanghai Yanhe has agreed conditionally to purchase the Target Property, for an aggregate consideration of RMB26,300,000. The disposal transaction has been approved by the shareholders at the extraordinary general meeting on 12 February 2020 and the transfer was already completed. For further details, please refer to the announcement of the Company dated 12 December 2019, 7 January 2020, 24 January 2020 and 12 February 2020.

Save as disclosed as above, our Group made no significant investments, material acquisitions or disposal during the year ended 31 December 2019.

INVESTMENTS HELD IN FOREIGN CURRENCY AND HEDGING

For FY2019, the Group did not hold any investments denominated in foreign currencies. Furthermore, the Group's working capital or liquidity did not encounter any material difficulties or material impacts as a result of the movement in exchange rate.

EMPLOYEES AND REMUNERATION POLICIES

The emolument policy of our Group aims at attracting, retaining and motivating talented individuals. The principle is to have performance-based remuneration which reflects market standards. Remuneration package for each employee is generally determined based on his or her job nature and position with reference to market standards. Our emolument policy will be adjusted depending on a number of factors, including changes to the market practice and stages of our business development, so as to achieve our operational targets. As at 31 December 2019, we employed around 365 full-time employees. The total staff costs for FY2019 was approximately RMB37.6 million (FY2018: approximately RMB36.1 million).

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither our Company nor any of its subsidiaries has purchased, sold or redeemed any of our Company's listed securities during FY2019.

CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintaining a high standard of corporate governance and has steered its development and protected the interests of its shareholders in an enlightened and open manner. During FY2019, the Board comprised three executive Directors and three independent non-executive Directors. The Board has adopted the code provisions of the Corporate Governance Code (the "**CG Code**") set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**"). During FY2019, the Company has complied with the CG Code, except for the deviation as explained below.

Code provision A.2.1 provides that the roles of Chairman and Chief executive should be separate and should not be performed by the same individual. As Mr. Ding Peiji ("**Mr. Ding**") is both the chief executive officer and the chairman of the Board of the Company, the Company is in deviation from code provision A.2.1. We consider that vesting the roles of both chairman and chief executive officer in Mr. Ding has the benefit of ensuring consistent leadership within our Group and enabling more effective and efficient overall strategic planning for our Group. The Board believes that the balance of power and authority for the present arrangement will not be impaired and is adequately ensured by current Board composition and structure taking into account the background and experience of our Directors.

Code provision C.1.2 provides that management should provide all members of the board with monthly updates giving a balanced and understandable assessment of the issuer's performance, position and prospects in sufficient detail to enable the board as a whole and each director to discharge their duties under Rule 3.08 and Chapter 13 of the Listing Rules. During FY2019, the management of the Company had not provided regular monthly updates to the members of the Board. The management had provided information and updates to the members of the Board as and when appropriate.

MODEL CODE FOR SECURITIES TRANSACTIONS BY THE DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules as the code of conduct regarding Directors' securities transactions. Specific enquiries have been made to all Directors and all Directors have confirmed that they have fully complied with the required standard of dealings as set out in the Model Code during FY2019.

REVIEW OF ANNUAL RESULTS BY AUDIT COMMITTEE

The audit committee of the Company (the "**Audit Committee**") was established for the purposes of reviewing and providing supervision over the Group's financial reporting process, internal controls and risk management. The Audit Committee has reviewed our unaudited consolidated financial statements for FY2019 and the accounting principles and practices adopted, and discussed auditing, internal controls, and financial reporting matters with our management and the Company's auditors.

SCOPE OF WORK OF THE INDEPENDENT AUDITORS

The auditing process for the annual results for the year ended 31 December 2019 has not been completed due to the COVID-19 coronavirus outbreak. The unaudited annual results contained herein have not been agreed with the Company's auditors as required under Rule 13.49(2) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. An announcement relating to the audited results will be made when the auditing process has been completed in accordance with Hong Kong Standards on Auditing issued by Hong Kong Institute of Certified Public Accountants.

FURTHER ANNOUNCEMENT(S)

Following the completion of the auditing process, the Company will issue further announcement(s) in relation to the audited results for the year ended 31 December 2019 as agreed by the Company's auditors and the material differences (if any) as compared with the unaudited annual results contained herein. In addition, the Company will issue further announcement as and when necessary if there are other material development in the completion of the auditing process.

FINAL DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended 31 December 2019 (2018: Nil).

PUBLICATION OF ANNUAL RESULTS

This announcement of unaudited annual results is published on the website of the Company (www.redkids.com) and the website of the Hong Kong Stock Exchange (www.hkexnews.hk). The 2019 Annual Report containing all the information required by Appendix 16 to the Listing Rules and the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) will be despatched to the shareholders of the Company and published on the website of the Company and the Hong Kong Stock Exchange in due course.

APPRECIATION

The Board would like to express its sincere appreciation to the shareholders, customers, suppliers, management team and staff for their continuous support to the Group.

The financial information contained herein in respect of the annual results of the Group have not been audited and have not been agreed with the auditors. Shareholders and potential investors of the Company are advised to exercise caution when dealing in the securities of the Company.

On behalf of the Board
Miko International Holdings Limited
Ding Peiji
Chairman

Hong Kong
30 March 2020

As at the date of this announcement, the Directors are:

Executive Directors:	Mr. Ding Peiji, Mr. Ding Peiyuan and Ms. Ding Lizhen
Independent non-executive Directors:	Mr. Hung Cho Sing, Mr. Chan Wai Wong and Mr. Wu Shiming